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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 002231

SIPDIS

TREASURY FOR MILLS/CHANG
NSC/NEC FOR JASON SINGER
USUN FOR KONZET AND HILLMAN

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SUBJECT: TFIZ01: LOCAL EXPORTERS FACE LOSSES FROM
SADDAM-ERA CONTRACTS

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Classified By: DCM Greg Berry, reasons 1.5 (b,d)

11. (c) Summary: While the government meets with business leaders to formulate a plan to mitigate the economic costs of war in Iraq, local businesses are beginning to feel the squeeze from the inability of the evaporating Saddam regime to pay its bills. Local exporters worry that a new Iraqi government will not honor Saddam-era contracts, leaving them holding the bag. Balancing the need to offset real costs incurred by Jordanian companies from the war against weaning Jordan off of concessional trade relationships with its neighbor will be a key consideration for the kingdom in a post-war environment. End summary.

Government Meets, Businesses Fret

12. (u) King Abdullah has been meeting over the past two weeks with senior representatives of all of Jordan's major economic sectors, trade unions, and business associations to gauge their losses from conflict in Iraq. On April 1, PM Abul Ragheb formed a special commission to study the issue and prepare recommendations for the government to offset those losses.

13. (sbu) As the government formulates a response, we have begun to hear from business groups that have already felt, or expect soon to feel, the economic consequences of war in Iraq. Irbid Chamber of Industry Chairman Maher al-Nasser visited April 8 to voice concern over the exposure faced by Jordanian companies trading under the Oil For Food program and the bilateral oil and trade protocol with Iraq. Nasser said a number of companies are facing difficulties receiving payments for goods delivered to Saddam Hussein's government, while others were unable to deliver contracted goods and thus could not present a delivery receipt to claim payment from Jordan's Central Bank under the terms of the protocol. This second group of companies now has warehouses full of goods to deliver, but no permission to make the trip to Baghdad and no entity to receive the shipment in any case.

GOJ Sticks to Its Legal Guns

14. (sbu) Nasser gave a list of companies facing difficulties along with contract numbers to the Trade Ministry. This list estimates potential losses to 6 companies of over \$27 million (including \$25 million in OFF contracts and \$2 million in protocol contracts). In most of these cases, the goods were contracted between Saddam's government and the exporter, but applications to the OFF program are either pending in committee or have not yet been submitted. According to Nasser, these companies are facing increasingly stern demands from creditors to repay debts for inputs that they accrued to manufacture the contracted goods. This creates a "double whammy" of company failures due to inability to move the goods, and increasing bad debt owed by these companies to a handful of local banks. We expect that the Irbid-area companies listed by Nasser represent only a fraction of companies country-wide facing similar losses.

15. (c) In an April 9 meeting with ECON Chief, Trade Ministry Secretary General Farouk Hadidi said the GOJ is ready to pay off any protocol contracts for which a receipt can be produced as proof of delivery of goods to the consignee in Iraq. Any exporters who cannot provide proof of delivery, though, will not be paid, he said, even if they can produce a signed contract or L/C for the goods. He said if the GOJ started paying off these contracts for undelivered/undeliverable goods, they would only open the door to other abuses of the protocol and saddle the government with a warehouse full of unsalable goods. He thought the GOJ would need to find other ways and resources to meet these companies' needs.

16. (c) Nasser said that, for OFF contracts, Jordanians would like to see a commitment from the UN to a) accept applications for goods for which contracts had already been signed between Saddam's government and the exporters; and b) process those applications and pending applications expeditiously, since for some of the companies these contracts represent an entire year's worth of business. For protocol contracts, Nasser said the Chamber and individual businesses will continue to try to work out a compensation scheme with the GOJ. As an alternative, Nasser said the business community would appreciate assurances from the USG that Saddam-era contracts would be honored and transactions finalized with Jordanian exporters. If that proved impossible, Nasser hoped some other authority in Iraq would honor these contracts instead.

17. (c) Echoing remarks by FM Muasher to the Ambassador April 8, Hadidi welcomed the decision to position UN OFF inspectors from COTECNA in Aqaba. He noted that Jordanian OFF exporters would be incurring additional transportation costs as a result of having to truck goods from northern Jordan to Aqaba and back up to the Iraqi border (rather than straight through as was previously the case), and asked if it would be possible to put a "satellite" COTECNA office closer to the Jordan-Iraq border to further facilitate the movement of Jordanian goods into Iraq. We told Hadidi we would pass this request to Washington, and encouraged him to be in direct contact with the Office of the Iraq Program and COTECNA, which has a support office in Amman.

Comment

18. (c) Nasser's questions raise the broader question of how (or indeed, whether) a new government in Iraq will account for obligations of Saddam's regime to Jordan and Jordanian companies. This applies not just to commercial contracts, but more importantly to the continuation of the oil and trade protocols, acknowledgment of Iraqi debt to Jordan, and similar issues. Several senior Jordanian officials have raised their interest on the last point with the Ambassador. They point out, for instance, that the current bilateral oil and trade protocol expires at the end of December. The Ambassador has in response noted our mutual interest in ending Jordan's economic dependence on concessional economic relationships with Iraq.

GNEHM